

ORIGINAL

Decision No. 55678

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of

SAN JOSE WATER WORKS,

a corporation,

for an order authorizing it to issue an additional amount of its convertible preferred stock and common stock upon conversion.

Application No. 39429

OPINION

This is an application for an order of the Commission authorizing San Jose Water Works to issue and sell not to exceed 40,000 shares of its Cumulative Preferred Stock, Series E, of the par value of \$25 each and of the aggregate par value of \$1,000,000, and to issue shares of common stock.

The purpose of the proposed financing, after defraying the expenses of the issuance and sale of the preferred shares, is to provide applicant with funds to pay indebtedness and to reimburse its treasury for moneys expended for properties and facilities. Applicant reports that on August 31, 1957, its short-term bank loan amounted to \$100,000 and that its unfinanced expenditures amounted to \$1,457,489, as shown in some detail in Exhibit B. In addition, it estimates that it will be required to spend \$572,883 to complete construction jobs now in progress.

Information filed with the Commission shows that the company has been engaged in conducting an extensive construction program and that its investment in its plant and its volume of

business have been increasing rapidly from year to year. A summary statement indicating its growth experience during the last five years is as follows:

<u>Year</u>	<u>Operating Revenues</u>	<u>Net Income</u>	<u>Service Connections</u>	<u>Gross Plant Additions</u>
1952	\$2,109,915	\$461,240	53,101	\$1,044,765
1953	2,371,868	465,834	56,879	2,102,521
1954	3,029,711	661,234	60,417	1,890,127
1955	3,462,893	768,153	65,009	1,680,434
1956	3,755,677	812,544	70,151	2,408,399

The company's financial reports show that its recorded investment in utility plant as of August 31, 1957, less related reserves, amounted to \$22,911,694 and that it has been its practice to meet its capital requirements, in part, by short-term borrowings and thereafter, from time to time, to replace such temporary borrowings with permanent financing in the form of long-term debt or shares of stock. Applicant's capital ratios as of August 31, 1957, exclusive of the short-term loan, and as adjusted to give effect to the proposed financing, are as follows:

	<u>August 31, 1957</u>	<u>Pro Forma</u>
Bonds	51%	49%
Preferred stock	6	10
Common stock equity	<u>43</u>	<u>41</u>
Total	<u>100%</u>	<u>100%</u>

The shares of preferred stock applicant now proposes to issue will constitute a new series. They will be convertible into shares of common stock, will be entitled to cumulative dividends and will be redeemable at such rates as hereafter will be determined by applicant's board of directors. In issuing shares

of the proposed new series at this time, applicant not only will be improving its bond position, as indicated in the preceding tabulation, but also will be providing for additional common stock equity ultimately through conversion of the shares of the new series of preferred stock into common shares.

According to the financial statements, the company's gross income after depreciation charges has been in excess of three times its interest charges. During the last five years the company, after meeting its fixed charges, has paid annual dividends on its outstanding \$25 par value common stock at the rate of \$2 a share during 1952-1954 and a portion of 1955 and thereafter at the rate of \$2.40. The company's balance sheet shows current assets of \$2,110,019 at August 31, 1957, and current liabilities of \$1,535,986 including the short-term bank loan applicant now proposes to liquidate.

From a review of the verified application, we are of the opinion that applicant has need for the proceeds from the sale of its shares of preferred stock for the purposes indicated, that the issue of additional preferred stock at this time is desirable, and that we are warranted in entering a preliminary order at this time authorizing the issue of the shares of stock. It appears that at a later date applicant will file for the Commission's further consideration in this matter a supplemental application setting forth the terms of the shares of stock and the price at which it has arranged to sell them.

The approval herein granted is for the issuance of shares of preferred and common stock only and is not to be construed as

indicative of amounts to be included in a future rate base for the purpose of determining just and reasonable rates.

O R D E R

The Commission having considered the above-entitled matter and being of the opinion that a public hearing is not necessary, that the application should be granted, as herein provided, that the money, property or labor to be procured or paid for by the issue of the shares of preferred and common stock herein authorized is reasonably required by applicant for the purposes specified herein, and that such purposes are not, in whole or in part, reasonably chargeable to operating expenses or to income; therefore,

IT IS HEREBY ORDERED as follows:

1. San Jose Water Works, on and after the effective date hereof and on or before January 31, 1958, may issue and sell 40,000 shares of Cumulative Preferred Stock, Series E, at a price hereafter to be fixed by the Commission.
2. San Jose Water Works shall use the proceeds to be received from the sale of said 40,000 shares of preferred stock for the purposes set forth in this application.
3. San Jose Water Works from time to time may issue shares of its common stock of the par value of \$25 each to persons who shall surrender in exchange therefor shares of its Cumulative Preferred Stock, Series E, pursuant to the conversion right to be granted to such preferred stock.

4. Within 60 days after the issue and sale of said shares of preferred stock, applicant shall file with the Commission three copies of its prospectus, and a report showing the amount of stock sold, the price at which sold and the names of those to whom sold.

5. Within six months after the issue and sale of said shares of preferred stock, applicant shall file with the Commission a statement showing in some detail the expenses incurred by it in connection with such issue and sale and the account, or accounts, to which such expenses were charged, and, in general, the purposes for which the proceeds were used.

6. The authority herein granted to issue and sell said shares of Cumulative Preferred Stock, Series E, will become effective when the Commission by a supplemental order has fixed the price at which applicant may sell the same. In other respects, this order shall become effective upon the date hereof.

Dated at San Francisco, California, this 15th day of October, 1957.

John E. Mitchell
President
Paul J. [unclear]
Mark [unclear]
R. [unclear]
E. Lynn Fox
Commissioners